Financial Markets

Irving Trust

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Friday April 11, 1980

As conviction that the recession is here spreads, interest rates are dropping. The latest evidence that the recession has started is the report that retail sales were off sharply in February and March with widespread declines. This, together with the significant decline in March employment reported earlier, likely means the recession is under way. Attention is now focused on the soon-to-be-released figures for March industrial production. Even if no decline is evident in March, a drop in April seems certain; reductions are already scheduled in automotive assemblies, and weakness in construction materials is mounting. A committee of the National Bureau of Economic Research is responsible for dating the official beginning and end of recessions. Our bet is that, when all the data are in, the bureau will announce that the recession began in March.

Portfolio managers are understandably leery about accepting as fact the arrival of the recession, with its accompanying peak in rates. They've been burned too many times before. Last year, they repeatedly lengthened their portfolios in response to talk of recession, only to find in ensuing months that there was no recession, that even more attractive yields were available, and that they had even larger losses in their bond positions. Thus far, this rally has been largely a traders' market. Further strong improvement still lies ahead as the recession's credibility grows with investment managers. There's still plenty of time to make some money in what promises to be a major market reversal. Of course, it won't be a one-way street as those inevitable conflicting bits of economic evidence turn up from time to time to send rates temporarily up again.

Attention will soon turn to the recession's severity and duration. Our view is that the economic decline will bottom out near year-end. We expect this recession to be less severe than the last one but somewhat more severe than average in the postwar period. Specifically, we expect the recession to be about half as severe as that in 1974-1975. Real GNP will drop about 2.5% peak to trough versus a 5.7% drop the last time. The unemployment rate will rise 2%, from 5.75% to 7.75%, versus a 4% rise in 1974-1975, from 5% to 9%. We continue to expect this recession to be moderate primarily because inventories remain under control. Businessmen still remember only too well the problems of excessive inventory that they faced in 1974. And the widespread forecast of recession this time, though premature, has remained creditable because the economy has been sluggish, even though it did not decline as so many had expected. Also, high interest rates have been a spur to keeping inventories tight. Whenever a recession begins, businesses find that their inventories are too high. But this time, inventories will be less troublesome than usual. The main problem in bringing the recession to an end will not be liquidating excessive inventories but working off consumer debt and building up real personal income through a reduction in inflation. This will all take time--maybe even longer than we expect. In any case, the important point at the moment is that the regenerative processes that occur in a recession are starting to get under way.

Gordon B. Pye

Irving Trust

Money Market Rates

	4/11/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	20.00%	20.00%	11.75%
Effective since	4/3/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	19.00	20.50	10.00
Repurchase Agreements	18.00	16.25	9.80
U.S. Treasury Issues			
Bills			
3 months	14.50	15.60	10.08
6 months	14.90	15.98	10.28
1 year	14.10	15.51	10.19
Coupons			
2 years	13.12	14.44	9.85
4 years	12.25	13.20	9.34
7 years	11.70	12.57	9.30
10 years	11.70	12.47	9.20
Long Bond	11.47	12.20	9.09
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.55	17.50	10.10
3 months	17.50	18.00	10.30
6 months	17.10	18.30	10.55
1 year	N/A	N/A	10.65
Banker's Acceptances			
1 month	17.40	17.40	10.23
3 months	17.45	18.30	10.41
6 months	17.15	18.55	10.69
Eurodollar Deposits			
1 month	18.75	19.00	10.50
2 months	18.81	19.38	10.69
3 months	18.81	19.63	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	16.75	10.00
1 month	17.25	17.38	10.05
3 months	15.00	15.00	9.75
Bank Holding Companies			
1 month	17.75	17.50	10.00
Dealer Placed:			
3 months	16.50	17.00	10.10
New AA Corporate Utility Bond	14.40	15.25	9.90
Tax Exempt			
6 month Project Notes	7.25	8.60	5.20
1 year AAA Bond	7.00	8.00	N/A
5 year AAA Bond	7.10	8.10	N/A
20 year AAA Bond	8.00	9.44	5.90

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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